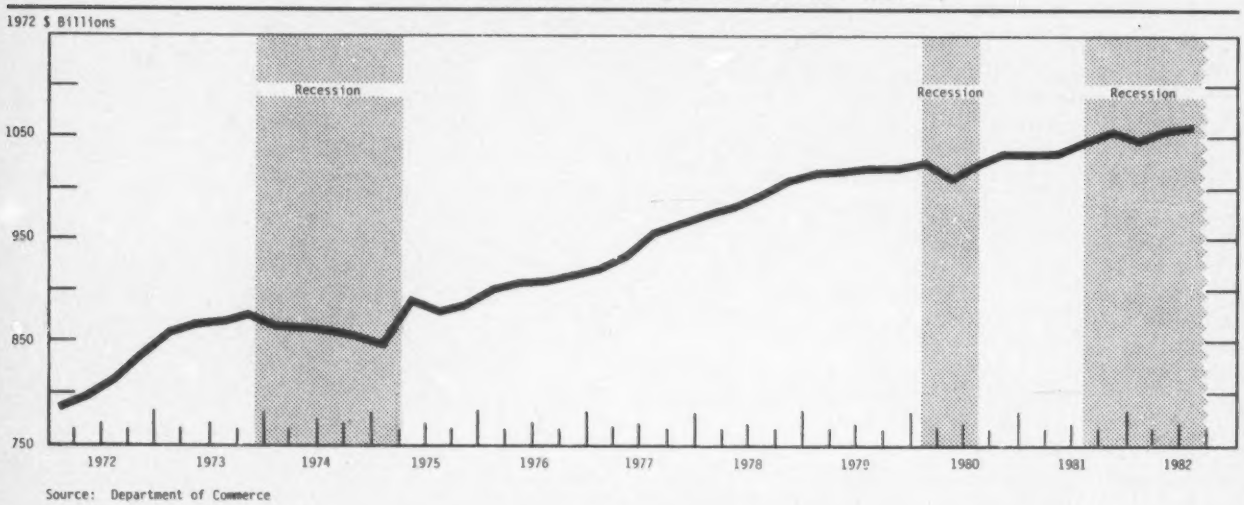
FinanceFacts

A Monthly Publication on Consumer Financial Behavior NOVEMBER 1982

Real Disposable Personal Income
(Quarterly, Seasonally Adjusted Annual Rates)



Source: Department of Commerce

Even in good years October is the part of the American year reserved for scrutinizing bad economic news, since October is the month before election day. And 1982 has been a good year for bad news, with unemployment reaching 10.4% of the work force at last count. However, fortunately, not all recent economic news has been bad. While no one contends the economy is balmy, some parts of the economic picture look considerably better than the unemployment rate in isolation. For this reason, and since November is the farthest point in the calendar from next election day, Finance Facts reserves November to look at some positives.

1) Leading Indicators. After a slight dip in August, the Commerce Department's index of leading economic indicators resumed its upward climb in September (see page 3). This index, whose changes in direction foreshadow changes in the direction of the economy as a whole, has now risen in five of the last six months and in September stood 4% above its March trough. The advance is not as robust as in previous business cycle upturns and seems to be signalling a relatively moderately-paced recovery. However, in the seven previous post-World War II upturns this index has never advanced for such a sustained period without signalling the onset of economic recovery.

2) Employment. With all the talk in October of higher unemployment and the 1981-82 recession being compared to the Great Depression of the 1930's, it is possible to lose sight of the pattern of total employment in recent years. Total employment peaked in May, 1981 at a record level of slightly more than 101 million employed. At that time employed workers represented 58.8% of the total noninstitutional population 16 years of age and over, very close to the all-time high of 59% in 1979. By October, 1982 the recession had caused a drop in total employment of 1.9% to 99.1 million with

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jobs. While this is dismal news, the decline is actually smaller in percentage terms than the 2.2% drop in the 1973 75 recession (see chart on page 3). And, the portion of the population with jobs at 56.6% is still higher than any year 1947-72 and is exceeded by more than one percentage point only in 1979-81 when employment averaged 58.6% of the population.

3) Inflation. By any measure inflationary pressures in the economy moderated substantially during 1982. The consumer price index for all urban consumers increased 5.0% between September 1981 and September 1982, in sharp contrast to growth rates reaching almost 20% for short periods in 1980 and double digit yearly growth 1979-81 (see page 4). Consumer-price inflation in 1982 is likely to be the lowest recorded in a decade, since annual growth of 3.3 percent in 1972.

4) Consumers' Real Income. The 1981-82 recession is unique among the eight post World War II recessions in that consumers' real income (disposable personal income in inflation-adjusted 1972 dollars) has not declined despite some deterioration in employment (see chart). A number of factors account for this
difference, including the rapid decline in inflation, Federal tax cuts enacted in 1981, and high interest rates through much of the year that raised consumers' interest income. Of course, to a great extent each of these reasons might be considered a special factor. To make consumers' real incomes continue to grow, increases in employment and average workweeks will be needed, together with continued moderation in inflation. Nevertheless, consumer-sector real income growth has been sustained through this recession, which is unprecedented in recent financial history.

5) Consumers' Financial Condition. As discussed in more detail in earlier issues of Finance Facts (January-April 1982), the consumer sector as a whole remains in relatively liquid financial condition. Liquid assets are substantial and installment credit growth has been very limited since 1979. Installment credit growth in third-quarter 1982 grew at only a 2% annual rate. Consumers' installment credit "debt burden," defined as installment credit repayments divided by disposable personal income, fell to 14.8% in the third quarter, the lowest ever recorded in the series which dates from 1971 (see April Finance Facts).

6) Interest Rates. In the past two months interest rates accelerated their decline which actually began in 1981. Prime loan rate at major banks is now 12.0%, down 44% from its peak of 21.5% in early 1981. Almost half of this drop has occurred since July 1982 when the prime rate still held at 16.5%. Likewise Moody's index of rates on seasoned AAA corporate bonds declined 27% to 11.58% in the week ended November 5, 1982 from 15.85% in the week ended October 2, 1981. Much of the decline has occurred in the past few months; Moody's index remained above 15% as late as the week ending last July 2. Since interest rates in large part reflect expectations of future inflation, long-term rates can be expected to continue to edge downward if inflation continues to moderate. And, as rates edge downward, pickups can be expected in interest-sensitive parts of the economy, such as housing and automobile sales.

7) Housing. It appears that recent declines in interest rates are beginning to have an impact on housing. Housing starts rose 14.4% in September to a seasonally adjusted rate of 1.15 million. Single-family home starts were at their highest level in over a year. Likewise, new home sales jumped 23.7% in September to the highest level since May 1981. Continued strength in sales will encourage developers to continue the recent trend toward higher levels of starts with resultant increases in construction employment and income.

In sum, while bad news abounds, economic news is not uniformly dismal. If recent pickups in consumer sentiment reported by the University of Michigan are soon translated into willingness to purchase, the economy might begin to show some more life, as we turn the corner into 1983.

Thomas A. Durkin

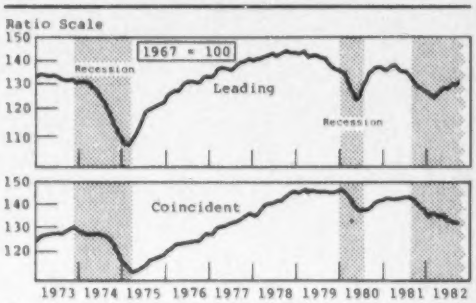
LEADING INDICATORS

The composite index of leading indicators increased 0.5% in September to a level of 130.4 (1967=100), based on preliminary data. Preliminary estimates for August showed a decline of 0.9%. Based on more complete data the index decreased 0.2% in August and increased 1.2% in July. The major contributor to the August revision was change in inventories on hand and on order. The index of leading indicators has now registered increases in five of the last six months and is at a level 4.2% above its most recent low (March 1982) of 125.1.

Five of the ten indicators available for September contributed to the increase, with stock prices making the greatest contribution. Four of the ten contributed declines, the largest contributor was average workweek. One indicator was unchanged.

The composite index of coincident indicators, which is a monthly approximation of aggregate economic activity, decreased 0.8% in September to 130.3 (1967=100), based on preliminary data. This index decreased 1.0% in August and decreased 0.5% in July.

Composite Indexes
By Months 1973-1982

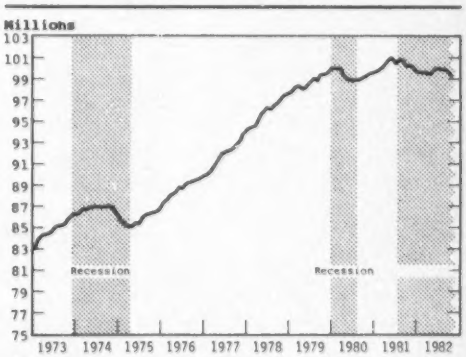


Source: Department of Commerce

CONSUMER INSTALLMENT CREDIT

In September, consumer installment credit outstanding amounted to $335.9 billion. A year ago outstandings were $328.2 billion. On a seasonally adjusted basis, there was an increase of $1.1 billion in September with just under half of the increase accounted for by auto credit. At the end of the third quarter total consumer installment credit liquidated was 14.8% of disposable personal income. In the second quarter it was 15.6%.

Total Employment
By Months (Seasonally Adjusted) 1973-1982



Source: Department of Labor

EMPLOYMENT

Unemployment rose in October and employment declined after seasonal adjustment, according to the Bureau of Labor Statistics. The unemployment rate increased from 10.1% in September to October's level of 10.4% as total employment dropped by 630,000 in October to 99.1 million.

The overall unemployment rate, at 10.4%, has increased fairly steadily over the past 15 months from a low of 7.2%. Nearly all of the October rise in joblessness occurred among adult men and women, whose rates reached 9.8% and 8.6%, respectively. The rate for teenagers was about unchanged. The average duration of unemployment rose over the month to 17.2 weeks in October.

PRICE INDEXES

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.2% in September, before and after seasonal adjustments, to 293.3 (1967=100). The September increase follows an increase of 0.3% in August and is consistent with the generally moderate rates of increase since October 1981. The housing component declined 0.2% in September, primarily reflecting lower mortgage interest rates and housing prices while food and beverage prices posted their first rise (0.5%) since June.

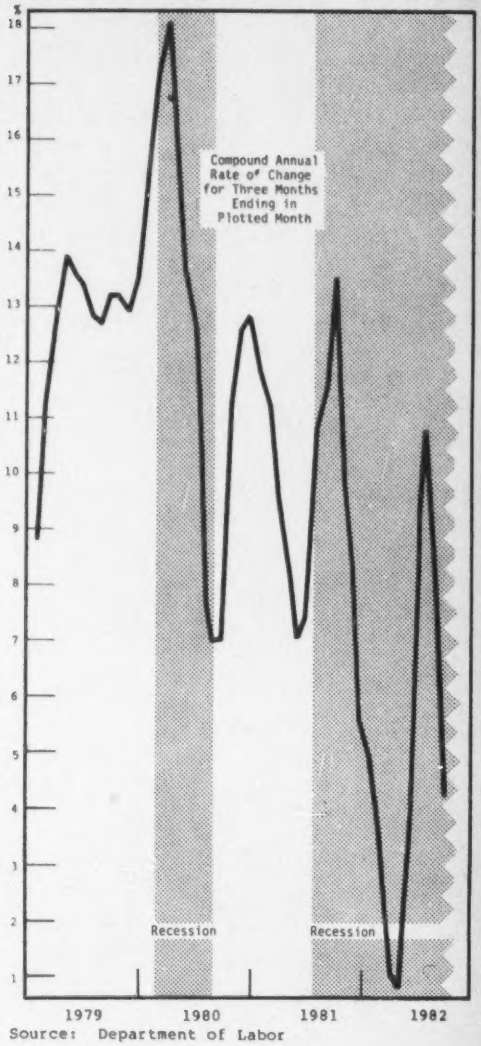
For the first three quarters of 1982, the CPI-U rose at a seasonally adjusted annual rate of 4.8%. The third quarter rate was 4.2%, compared with a 9.3% rate of increase in the second quarter. The slowdown from the second to the third quarter is attributable to the housing and food and beverages components. Over the past 12 months, all index groups, excepting medical care, rose more moderately than in the preceding 12 months.

The Producer Price Index for Finished Goods edged down 0.1% from August to September after seasonal adjustment. The index had increased 0.6% in both July and August. About two-thirds of the September decline was caused by across-the-board inventory liquidation allowances for passenger cars and trucks associated with the model year. The index for finished goods other than food and energy edged down 0.1% following a 0.6% rise in August. Before seasonal adjustment, the Producer Price Index for Finished Goods decreased 0.4% to 281.4 (1967=100). For the 12 months ending in September 1982 this index has risen 3.6%.

Gregory D. Luetscher

Change in Consumer Price Index

(All Urban Consumers, 1979-1982)



Source: Department of Labor

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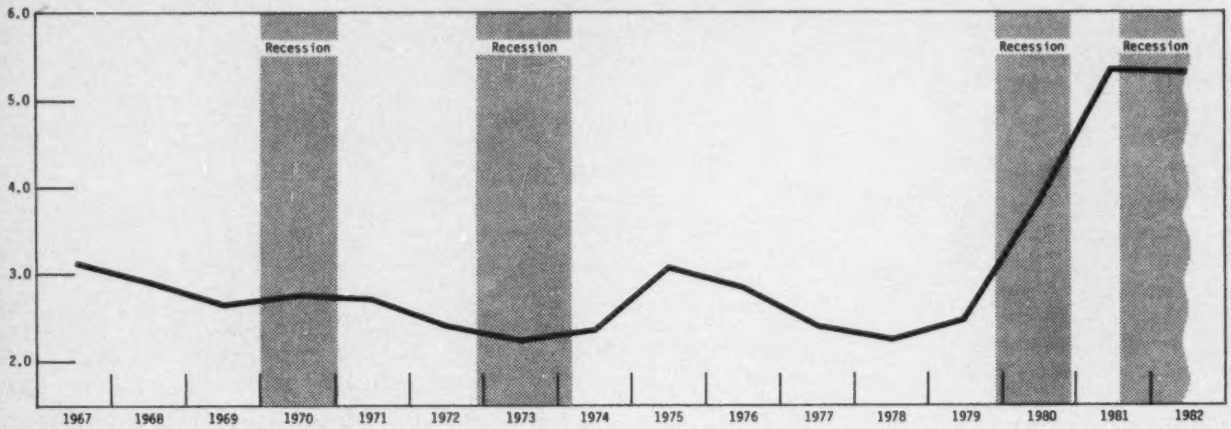
Number of Bankruptcy Filings Per One Thousand Households, Total U.S., 1967-1982



National Consumer Finance Association Chart.
Source: Administrative Office of the United States Courts, Bureau of the Census.

The October decline in consumer installment credit outstanding reported this week by the Federal Reserve Board (see page 2) raises the inevitable question whether consumers' credit behavior in this business cycle is different from behavior witnessed in previous cycles. Typically, observers of consumer credit markets divide this question into three parts: 1) whether installment credit growth follows familiar cyclical patterns, 2) whether changes in the consumer sector's overall financial condition fall within previously experienced ranges, and 3) whether specific measures of individuals' financial stress, such as numbers of account delinquencies and bankruptcies, are consistent with prior experience.

Taking these questions in order, a sharp decline in the growth of consumer installment credit outstanding is a familiar pattern for the last months of a recession. In fact, in three of the last four recessions (1960-1, 1973-5, and 1980) consumer credit growth briefly turned negative, even in nominal dollar terms, as it did in October, 1982. Interestingly, in all four of the most recent recessions the low point in consumer credit growth occurred right at or slightly after the trough in aggregate economic activity. Thus, negative consumer credit growth is not only a familiar pattern; it is another sign that the recession is bottoming out.

Second, as has been discussed extensively in Finance Facts this year (see January through April issues and updates of January and April charts on page 2 of this issue), the consumer sector's short term financial picture has followed a familiar pattern in this cycle. Measures of debt burden, either consumer installment credit outstanding in relation to liquid assets or installment debt repayments in relation to disposable personal income, tend to peak before or near the start of a recession

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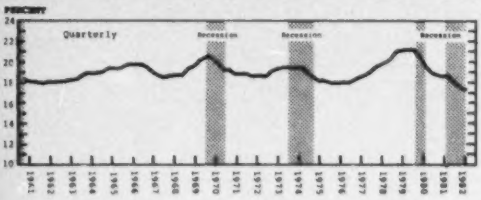
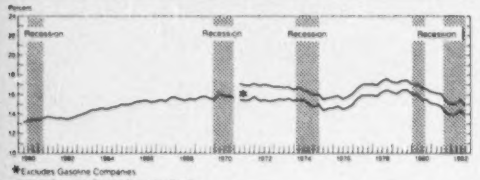
Ratio of Consumer Installment Credit Outstanding to Consumer Sector's Liquid Assets



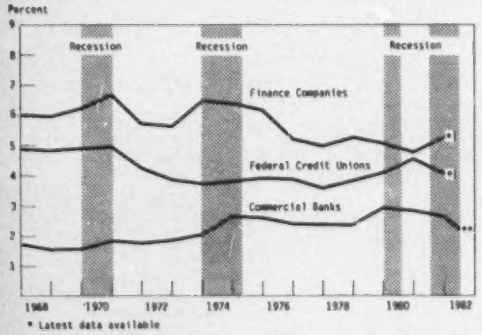
National Consumer Finance Association Chart. Source: Federal Reserve Board

Ratio of Repayments of Consumer Installment Credit to Disposable Personal Income



*Excludes Gasoline Companies
National Consumer Finance Association Chart
Source: Federal Reserve Board and Department of Commerce

Number of Loans Delinquent as a Percent of Total Number of Loans Outstanding, Year-end



* Latest data available
** Data as of June 30.
National Consumer Finance Association Chart.
Source: MCFA, National Credit Union Administration, American Bankers Association.

CONSUMERS' FINANCIAL POSITION

Personal saving as a percent of disposable personal income was 7% in the third quarter, up from 6.5% a year earlier. Commonly employed measures of consumers' "debt burden" remain at particularly low levels. Installment credit outstanding was just over 17% of consumers' liquid assets in the second quarter and repayments relative to disposable income fell below 15% in the third quarter, the most recent quarterly measures available. Both installment credit debt burden measures are at their lowest levels in twenty years.

CONSUMER INSTALLMENT CREDIT

In October, consumer installment credit outstanding amounted to $335.0 billion before seasonal adjustment. A year earlier, this figure was $328.7 billion. On a seasonally adjusted basis, consumer installment credit contracted by $324 million in October 1982, the first monthly decline since December 1981. The largest decline occurred in the "other" category (personal loans, home improvement and other consumer goods credit falling $350 million), followed by automobile credit (down $78 million) and mobile home credit (down $4 million). Revolving credit increased a seasonally adjusted $108 million. Total consumer installment credit outstanding declined at a 1.2% annual rate in October compared with a 4% increase in September and a 2% increase for the third quarter. Finance companies showed the largest decline, down $393 million seasonally adjusted, and savings and loans the largest increase, $328 million, seasonally adjusted, in October.

LEADING INDICATORS

The composite index of leading indicators increased 0.2% in October to a level of 131.4 (1967=100), based on preliminary data. This index increased 1.1% in September based on more complete data. The preliminary estimate for September was an increase of 0.5%. The leading indicators are now 2.4% above a year earlier and 5.0% above the recent low in March 1982. Of the ten indicators available for October, five increased, four declined and one was unchanged. Stock prices contributed the greatest increase and change in total liquid assets contributed the greatest decline. Average workweek was unchanged.

Gregory D. Luetscher

CONSUMER SECTOR INDICATORS

	1980 IV	1981 III	1981 IV	1982 I	1982 II	1982 III
EMPLOYMENT, INCOME, AND SPENDING						
Employment - Household Survey 1/	99,498	100,654	100,043	99,554	99,740	99,764
Disposable Personal Income 2/	$ 1,902.9	2,060.0	2,101.4	2,117.1	2,154.5	2,202.3
Personal Consumption Expenditure 2/	$ 1,745.8	1,868.8	1,884.5	1,919.4	1,945.8	1,989.5
Personal Saving 2/	$ 105.3	134.4	158.6	139.1	149.4	153.0
CONSUMER INSTALLMENT CREDIT						
Total Outstanding 3/	$ 309.1	326.5	327.9	330.0	333.5	334.0
Percent Change	1.2	1.6	0.4	0.6	1.1	0.2
Ratio to Consumers' Liquid Assets (%)	18.8	18.3	17.8	17.5	17.3	--
Ratio: Repayments to Disposable Personal Income (%)	16.3	15.4	15.1	15.1	15.6	14.8
Market Share (%)						
Commercial Banks	46.9	44.8	44.8	44.8	44.2	44.0
Finance Companies	24.5	27.0	26.9	27.4	27.8	27.7
Credit Unions	14.1	14.3	13.8	14.0	13.8	13.9

1/ Thousands, seasonally adjusted quarterly average
2/ Billions, seasonally adjusted annual rate
3/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce, NCFA.

The above data are updates and revisions to data last presented in the September 1982 issue of Finance Facts. Estimates are revised periodically by the statistical agencies to incorporate methodological changes and new source data.

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and then to decline through the recession and for a while afterward. In the 1981-2 recession the interesting fact is not that the pattern is any different, but that the debt burden decline began from an already low burden level following the 1980 recession only a short while earlier. As a result, commonly used debt burden measures in 1982 reached low levels not seen in two decades.

Third, available information on trends in specific measures of individuals' financial stress are also within the range of prior experience -- with the exception of personal bankruptcies. Like the burden ratios, graphs of the percentage of consumer credit accounts delinquent at banks, finance companies, and credit unions are flat and generally trendless over a long period (see page 2). They do show some cyclicality, tending to rise during recessions and falling afterward during subsequent recoveries. Before 1979 personal bankruptcies per 1000 households exhibited the same trendless pattern until bankruptcies shot up like an arrow beginning late that year (see chart on page 1). In looking for an explanation for this divergence between bankruptcies and the other measures of consumers' recent credit experience two extraneous developments in the bankruptcy area come to mind: the advent in lawyer advertising and changes in the Federal Bankruptcy Code in October 1979 that lowered the real cost of declaring personal bankruptcy. The point is that with the special exception of bankruptcies 1979-81, available measures of consumers' financial stress in the recent past follow typical cyclical patterns.

In sum, although negative consumer credit growth, a cyclical downturn in debt burden, and a cyclical upturn in credit delinquencies all have implications for the course of the economy, recent changes in these measures are startling only when viewed outside of their historical contexts. Currently available measures of credit growth, debt burden, and credit stress are within historical ranges and are consistent with prior cyclical experience. The one exception is personal bankruptcies where understanding the sharp recent uptrend requires knowledge of exogenous legal developments.

Thomas A. Durkin